FISCAL NOTE

Bill #: **SB0516** **Title:** **Revise taxation of business equipment**

Primary Sponsor: **Alvin Ellis** **Status: As introduced**

Sponsor signature Date Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	**FY2001 Difference**
Expenditures:		
General Fund (01)	($5,859,477)	($11,537,951)
Revenue:		
General Fund (01)	$1,103,401	($47,708,027)
State Special Revenue (6 mill)	(638,713)	(3,847,240)
State Special Revenue (9 mill)	(360,207)	(2,248,821)
Net Impact on General Fund Balance:	**$6,962,878**	**($36,170,076)**

Yes	No		Yes	No	
X		Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. The homestead exemption value is 40% of the first $200,000 or less of market value for class four residential property. This value is exempt from taxation.
2. Administrative costs associated with the homestead exemption are computer modifications of $42,380 for operating expenses in FY2000 only.
3. Beginning January 1, 2000, assessed values for classes 3, 4, and 10 are at full 1997 reappraisal values.
4. The administrative costs associated with going to full 1997 reappraisal values are $229,080 for operating expenses in FY2000 only.
5. The Department of Revenue would begin a reappraisal January 1, 2000. The 3-year cycle would be completed by January 1, 2003.

6. Administrative costs associated with completing a new reappraisal cycle (classes 3, 4, and 10 properties) are estimated to be $703,902 for personal services (21 FTE), $34,850 for operating expenses, and $12,500 for equipment in FY2000. Estimates for FY2001 are $646,504 for personal services (21 FTE) and $288,085 for operating expenses in FY2001.
7. Under the proposal, the taxable rate for classes 3 and 4 property will be set at 3.00%.
8. Business equipment will be exempt from taxation. This includes all business equipment in class 8 and all business equipment in other classes of property (including the business equipment of utilities).
9. All livestock will be exempt from taxation.
10. Eliminating the valuation and assessment of personal property would result in a reduction in personal services of $878,078 in FY2000 (75 FTE for half the year). Operating expenses are reduced by $224,589 in FY2000. Personal services are reduced by $1,756,156 in FY2001 (75 FTE) and operating expenses are reduced by $441,678 in FY2001.
11. It is estimated that the proposal will decrease total taxable value of $585,497,325 in beginning in tax year 2000 (fiscal year 2001 and after impact). Of this total, $234,874,879 is in counties that levy the 1.5 vo-tech mill levy, $231,464,672 is in counties that levy the 9 mill levy for state assumption of welfare, and $189,208,572 is in a city or town that levies mills.
12. It is estimated that $80,213,137 of the total decrease in taxable value comes from property that is not liened to real property. This property pays property taxes in the spring of the tax year (fiscal year 2000 impact).
13. Mill levies are: 95 mills for the general fund, 6 mills for the university system, 1.5 mills for the vo-tech levy (general fund), 100.79 for cities and towns, 141.76 for counties (including county-wide school retirement and transportation and miscellaneous districts), and 144.21 for local school districts.
14. The decrease in taxable value will result in a decrease in property tax revenue to the general fund of $7,668,514 in FY2000 and $55,974,558 in FY2001.
15. The decrease in taxable value will result in a decrease in property tax revenue to the university 6 mill levy of $481,279 in FY2000 and $3,512,984 in FY2001 and a decrease in property tax revenue to the 9 mill state assumption of welfare of $285,396 in FY2000 and $2,083,182 in FY2001.
16. The decrease in taxable value will result in a decrease in property tax revenue for local governments. The decrease for cities and towns is $2,612,743 in FY2000 and $19,071,115 in FY2001. The decrease for counties (including county-wide school retirement and transportation and miscellaneous districts) is $11,371,285 in FY2000 and $83,002,080 in FY2001. The decrease for local school districts is $11,567,470 in FY2000 and $84,434,085 in FY2001.
17. The proposal will result in a 14% decrease in the taxable rate of class 12 property (railroads and airlines) beginning in FY01. This will result in a decrease in property tax revenues of $880,842 for the general fund, $54,373 for the 6 mill levy, $32,642 for the 9 mill levy, and $2,657,025 for local governments and schools.
18. The taxable value of utility real property (class 9) will remain at current levels.
19. The taxable value of timber land will remain at current law levels (see technical note 1).
20. Eliminating the railroad carline tax will reduce general fund revenues by $2,153,000 in FY2001 and after.
21. Eliminating the HB20 reimbursement will decrease general fund expenditures by $5,779,522 in FY2000 and $10,274,706 in FY2001.
22. Eliminating the HB20 reimbursement will decrease revenues for the 6 mill account by $157,434 in FY2000 and $279,883 in FY2001 and decrease revenues for the 9 mill levy state assumption of welfare by $74,811 in FY2000 and $132,997 in FY2001. There is also a decrease in revenues for local governments of $5,547,772 in FY2000 and $9,861,826 in FY2001.

23. Eliminating the SB417 reimbursement will increase general fund revenues by $8,771,915 in FY2000 and $11,300,373 in FY2001.
24. Eliminating the SB417 reimbursement will decrease revenues for local governments by $8,771,915 in FY2000 and $11,300,373 in FY2001.
25. The decrease in taxable value and termination of HB20 and SB417 reimbursements will have a significant impact on the state contribution to local school funding (GTB aid). It is assumed that this issue will be addressed in other pieces of legislation.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
FTE	(16.50)	(54.00)
Expenditures:		
Personal Services	($174,176)	($1,109,652)
Operating Expenses	81,721	(153,593)
Equipment	12,500	0
HB20 Reimbursement	(5,779,522)	(10,274,706)
TOTAL	($5,859,477)	($11,537,951)
Funding:		
General Fund (01)	($5,859,477)	($11,537,951)
Revenues:		
General Fund (01)	$1,103,401	($47,708,027)
State Special Revenue (6 mill)	(638,713)	(3,847,240)
State Special Revenue (9 mill)	(360,207)	(2,248,821)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$6,962,878	($36,170,076)
State Special Revenue (6 mill)	(638,713)	(3,847,240)
State Special Revenue (9 mill)	(360,207)	(2,248,821)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
The proposal is expected to significantly reduce revenues of local governments. The reduction is estimated to be $39,871,185 in FY2000 and $207,675,479 in FY2001 and after.

LONG-RANGE IMPACTS:
The proposal will have significant long-range impacts. The impact to fiscal years 2002 and beyond would be similar to fiscal year 2001 impacts.

TECHNICAL NOTES:
It is intended that the taxable value of class 10 timberland remain at current law level. An amendment is necessary to accomplish this.